FIRST LIGHT

03 February 2022

RESEARCH

eClerx Services | Target: Rs 3,790 | +52% | BUY

All-round outperformance; maintain BUY

SUMMARY

eClerx Services

- Q3 revenue growth at 5.9% QoQ USD beat our estimate led by a sharp increase in offshoring
- EBIT margin at 27.1% also stood above our estimate of 25.9% aided by operating leverage and a higher offshore mix
- We raise FY23/FY24 EPS by 5%/4% and increase our TP to Rs 3,790 (vs. Rs 3,690); retain BUY

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Daily macro indicators

Indicator	01-Feb	31-Jan	Chg (%)
US 10Y yield (%)	1.79	1.78	1
India 10Y yield (%)	6.85	6.68	17
USD/INR	74.80	74.62	(0.2)
Brent Crude (US$/bbl)	89.2	91.2	(2.2)
Dow	35,405	35,132	0.8
Hang Seng	23,802	23,550	1.1
Sensex	58,863	58,014	1.5
India FII (US$ mn)	**31-Jan**	**28-Jan**	**Chg ($ mn)**
FII-D	(42.4)	122.9	(165.3)
FII-E	(271.7)	(675.2)	403.4

Source: Bank of Baroda Economics Research

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BUY
TP: Rs 3,790 | ⮝ 52%

ECLERX SERVICES | Technology & Internet | 02 February 2022

All-round outperformance; maintain BUY

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Stellar growth: ECLX reported Q3FY22 revenue growth of 5.9% QoQ USD, outperforming our estimate of 2.6%. The top 10 accounts contributed a bulk of the growth, rising 6.5% QoQ USD, while revenue from the non-top 10 clients increased 5.1%. Revenue growth was skewed towards offshore locations, which saw an impressive uptick of 7.2% QoQ, raising the offshore mix by 100bps QoQ. The company performed well across verticals. Personiv too has been doing well and its above-expected performance in FY21 has led ECLX to raise earnouts beyond earlier estimates.

Supply-side challenges retreating: EBIT margin stood at 27.1%, above our estimate of 25.9% and up 40bps QoQ. Attrition was at 37.3%, down from a high of 41.3% in Q2FY22. ECLX's net headcount increased to 14,112 (up 540 people QoQ or 4.1% QoQ), driving up employee cost. About 86% of the headcount addition was in the offshore base. Management attributed the increased staffing to high attrition and buoyant demand. FY22 EBITDA margin guidance remains at 28-32%, biased toward the upper end of the range.

Positive outlook: Management sees a positive demand environment largely driven by customer support and analytics in the digital business. ECLX expects to maintain growth momentum, with Q4FY22 to be better than Q3 due to seasonality. Of the four business pillars – BPO, onshore, consulting and tech – it is tech that has been growing the fastest over the last few years and management believes it will continue to do so. However, some margin impact could be seen in Q1FY23 as another round of salary hikes is due (higher than that in FY22), but this should be mitigated by higher growth and better utilisation. Also, the company expects fewer roll-offs ahead.

Maintain BUY: Post Q3FY22, we raise FY23/FY24 EPS estimates by 5%/4% and reiterate BUY with a revised TP of Rs 3,790 (vs. Rs 3,690 earlier). We continue to value the stock at 24x Dec'23E EPS, ~50% discount to our target multiple for mid-sized IT companies under our coverage.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ECLX IN/Rs 2,492
Market cap	US$ 1.3bn
Free float	45%
3M ADV	US$ 3.6mn
52wk high/low	Rs 2,970/Rs 915
Promoter/FPI/DII	54%/20%/26%

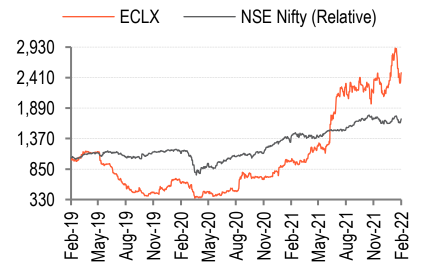
Source: NSE | Price as of 2 Feb 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	15,644	21,458	25,244
EBITDA (Rs mn)	4,642	6,773	7,949
Adj. net profit (Rs mn)	2,828	4,217	5,086
Adj. EPS (Rs)	82.8	122.4	147.6
Consensus EPS (Rs)	82.8	108.0	120.0
Adj. ROAE (%)	20.1	27.0	29.6
Adj. P/E (x)	30.1	20.4	16.9
EV/EBITDA (x)	19.4	13.2	11.3
Adj. EPS growth (%)	49.4	47.7	20.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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